

KB HOME  
Form 11-K  
June 22, 2007

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 11-K**

**þ ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934**

For the Fiscal Year Ended December 31, 2006

OR

**o TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 1-9195

**KB HOME 401(k) SAVINGS PLAN**

(Full title of the plan)

**KB HOME**

**10990 Wilshire Boulevard**

**Los Angeles, California 90024**

(Name of issuer of the securities held pursuant to the plan  
and the address of its principal executive office)

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Financial Statements and Supplemental Schedule  
KB Home 401(k) Savings Plan  
Years ended December 31, 2006 and 2005

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KB Home 401(k) Savings Plan  
Financial Statements and Supplemental Schedule

Years ended December 31, 2006 and 2005  
Contents

<u>Report of Independent Registered Public Accounting Firm</u>	1
Audited Financial Statements	
<u>Statements of Net Assets Available for Benefits as of December 31, 2006 and 2005</u>	2
<u>Statements of Changes in Net Assets Available for Benefits for the years ended December 31, 2006 and 2005</u>	3
<u>Notes to Financial Statements</u>	4
<u>Supplemental Schedule</u>	
<u>Schedule H, Line 4(i) - Schedule of Assets (Held at End of Year)</u>	8

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Report of Independent Registered Public Accounting Firm

The Administrative Committee, as Plan Administrator  
of the KB Home 401(k) Savings Plan

We have audited the accompanying statements of net assets available for benefits of the KB Home 401(k) Savings Plan (the Plan) as of December 31, 2006 and 2005, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Plan's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2006 and 2005, and the changes in its net assets available for benefits for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2006, is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ Ernst & Young LLP

Los Angeles, California  
May 11, 2007

KB Home 401(k) Savings Plan  
Statements of Net Assets Available for Benefits

	<b>December 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>Assets</b>		
Cash	\$ 161,507	\$ 298,965
Investments, at fair value	192,254,279	173,663,774
Receivables	6,488	5,201
Total assets	192,422,274	173,967,940
<b>Liabilities</b>		
Administrative expenses payable	4,636	7,739
Total liabilities	4,636	7,739
<b>Net assets available for benefits</b>	<b>\$ 192,417,638</b>	<b>\$ 173,960,201</b>

*See accompanying notes.*

KB Home 401(k) Savings Plan  
 Statements of Changes in Net Assets Available for Benefits

	<b>Years ended December 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>Additions</b>		
Contributions from:		
Plan participants	\$ 25,944,699	\$ 23,027,992
Employer, net of forfeitures	10,990,299	10,316,397
	36,934,998	33,344,389
Investment income:		
Interest and dividends	14,524,330	5,176,227
Net appreciation (depreciation) in fair value of investments	(5,035,159)	13,691,133
	9,489,171	18,867,360
Assets transferred into the Plan		649,520
Total additions	46,424,169	52,861,269
<b>Deductions</b>		
Benefits paid to participants	27,900,295	18,397,800
Administrative expenses	66,437	43,335
Total deductions	27,966,732	18,441,135
Net increase in net assets available for benefits	18,457,437	34,420,134
<b>Net assets available for benefits</b>		
Beginning of year	173,960,201	139,540,067
End of year	\$ 192,417,638	\$ 173,960,201

*See accompanying notes.*

KB Home 401(k) Savings Plan  
Notes to Financial Statements  
December 31, 2006

**1. General Description of the Plan**

The KB Home 401(k) Savings Plan (the Plan), formerly the Kaufman and Broad Home Corporation Amended and Restated 401(k) Savings Plan, is a defined contribution plan in which all eligible employees of KB Home (the Company) are eligible to participate on the first day of the month following the date of hire.

Eligible employees who elect to participate in the Plan (each, a Participant) may contribute up to 15% of their annual compensation (25% effective January 1, 2007), on a pretax basis, by means of payroll deduction. Participants may also contribute up to an additional 15% of their annual compensation, on an after-tax basis, also by means of payroll deduction. All contributions must be in whole percentages. Pretax contributions are eligible for tax deferred treatment up to the limits provided by the Tax Reform Act of 1986, as adjusted for cost of living.

Effective as of August 1, 2003, each Participant whose designated per payroll period contribution rate is at least 6%, who has attained (or will attain) age 50 before the close of a Plan year and whose contributions for the Plan year will exceed the limits of Internal Revenue Code (the Code) Section 402(s) or other Plan limit, is eligible to make a catch-up contribution in accordance with, and subject to the limitations of, Code Section 414(v).

Unless otherwise elected by the Board of Directors, the Company will match a Participant's pretax contribution up to 6% of annual eligible compensation (for Participants paid on a commission basis, matching eligible compensation shall not exceed \$50,000). Company matching contributions and related investment income vest to Participants over five years.

Plan assets are held in trust by Fidelity Management Trust Company, Inc. (the Trustee). Participants may direct the investment of their contributions among one or more of the several fund options offered by the Plan.

Participants who terminate their employment with the Company may elect to withdraw or rollover their contributions, vested Company contributions, and related investment income. Withdrawals or rollovers (to a separate defined contribution plan or individual retirement account) may be processed without a terminated Participant's consent if the Participant's vested benefits total less than \$5,000. Vested benefits totaling \$1,000 or less will be distributed as a lump-sum payment, and vested benefits totaling more than \$1,000 but less than \$5,000 will be rolled into an individual retirement account. Terminated Participants may keep vested benefits totaling \$5,000 or more in the Plan.

KB Home 401(k) Savings Plan  
Notes to Financial Statements (continued)  
December 31, 2006

**1. General Description of the Plan (continued)**

Unvested Company contributions for terminated Participants are forfeited and used by the Company to offset future matching contributions. For the years ended December 31, 2006 and 2005, the Company used \$1,936,723 and \$1,511,312, respectively, of forfeitures to offset matching contributions. The forfeiture balances available to offset future matching contributions were \$952,344 and \$488,357 at December 31, 2006 and 2005, respectively.

The Plan allows Participants to borrow against their vested benefits and to take hardship withdrawals subject to certain limitations.

In the event of Plan termination, benefits of all affected Participants, if not already so, shall become 100% vested and not subject to forfeiture.

On February 8, 2005, the assets from the PTH Holdings, LLC 401(k) Retirement Plan were transferred into the Plan in conjunction with the acquisition of Palmetto Traditional Homes.

**2. Summary of Significant Accounting Policies**

The financial statements of the Plan are prepared on an accrual basis. Investment income is recorded as earned. Distributions of Plan benefits to Participants who withdraw from the Plan are recorded when distributed. Certain administrative expenses of the Plan, such as recordkeeping fees, are paid directly by the Company, while other administrative expenses, such as loan administration and withdrawal fees and fees related to the unitized stock fund, are paid directly by Plan participants.

The financial statements are based on information provided to the Company and are certified as complete and accurate by the Trustee. Certain adjustments have been made to the financial statements provided by the Trustee in order for them to conform to the accrual basis of accounting. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that could affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

KB Home 401(k) Savings Plan  
Notes to Financial Statements (continued)  
December 31, 2006

**3. Investments**

Investments are valued at fair value, which is determined daily by the Trustee through reference to published market information using closing prices on the valuation date for mutual funds and common stock and based on closing balances for cash and participant loans.

The fair value of the Plan's individual investments that represent 5% or more of the Plan's net assets as of December 31, 2006 and 2005, were as follows:

	<b>December 31,</b>	
	<b>2006</b>	<b>2005</b>
Fidelity Contrafund	\$ 22,440,334	\$ 20,837,284
Fidelity Equity Income	15,587,851	13,025,632
Fidelity Intermediate Bond	10,430,981	9,062,202
Fidelity Low-Priced Stock	13,930,586	15,092,335
Fidelity Magellan	18,493,129	18,644,166
Fidelity Retirement Money Market	16,866,934	14,225,919
KB Home common stock	18,871,912	29,428,608

Net appreciation (depreciation) of the Plan's investments (including investments bought, sold, and held during the year) for the years ended December 31, 2006 and 2005, were as follows:

	<b>Years ended</b>	
	<b>December 31,</b>	
	<b>2006</b>	<b>2005</b>
Mutual funds	\$ 3,596,073	\$ 6,097,874
KB Home common stock	(8,631,232)	7,593,259
<b>Total</b>	<b>\$ (5,035,159)</b>	<b>\$ 13,691,133</b>

**4. Tax Status of the Plan**

The Plan has received a determination letter from the Internal Revenue Service dated February 28, 2002, stating that the Plan is qualified, in form, under Code Section 401(a) and, therefore, the related trust is exempt from taxation. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The Plan administrator

KB Home 401(k) Savings Plan  
Notes to Financial Statements (continued)  
December 31, 2006

**4. Tax Status of the Plan (continued)**

believes the Plan is being operated in compliance with the applicable requirements of the Code and, therefore, believes that the Plan is qualified and the related trust is tax exempt.

**5. Legal Matter**

*Bagley, et al., v. KB Home, et al.*

On March 16, 2007, the plaintiffs, who claim to be former employees of KB Home who participated in the Plan, filed this class action lawsuit against the Company, certain of its current and former officers and directors, and members of the KB Home 401(k) Savings Plan Administrative Committee. In the lawsuit, plaintiffs allege that defendants breached fiduciary duties owed to plaintiffs and the purported class members under the Employee Retirement Income Security Act of 1974 by failing to disclose information, and providing other misleading information, to Participants in the Plan about the Company's alleged prior stock option backdating practices. Plaintiffs also allege that defendants breached their fiduciary duties by failing to remove the Company's stock as an investment option under the Plan. The Plan itself is not named as a defendant. The outcome of the matter, if any, is unknown, but it is not expected to have a material impact on the net assets of the Plan.

**6. Reclassifications**

Certain amounts in the 2005 financial statements have been reclassified to conform to the 2006 presentation.

Supplemental Schedule

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KB Home 401(k) Savings Plan  
 EIN: 95-3666267 Plan Number: 001  
 Schedule H, Line 4(i) Schedule of Assets (Held at End of Year)  
 December 31, 2006

Identity of Issue	Description of Asset	Current Value
Mutual Funds:		
American Beacon Small Cap Value	211,512,574 shares	\$ 4,575,017
Dimension US Large Cap Value	154,491.274 shares	3,900,905
Fidelity Asset Manager*	468,905.485 shares	7,554,067
Fidelity Consumer Discretionary*	16,780.035 shares 344,176.895	439,637
Fidelity Contrafund*	shares 266,231.439	22,440,334
Fidelity Equity Income*	shares	15,587,851
Fidelity Financial*	12,714.973 shares	1,508,377
Fidelity Freedom Income*	45,168.871 shares	521,249
Fidelity Freedom 2000*	25,909.487 shares 140,238.658	322,832
Fidelity Freedom 2010*	shares 248,782.330	2,050,289
Fidelity Freedom 2020*	shares 189,949.726	3,863,590
Fidelity Freedom 2030*	shares 284,425.009	3,044,894
Fidelity Freedom 2040*	shares	2,696,349
Fidelity Healthcare*	18,312.397 shares	2,290,148
Fidelity Industrials*	47,160.431 shares 1,016,664.785	965,374
Fidelity Intermediate Bond*	shares 319,949.139	10,430,981
Fidelity Low-Priced Stock*	shares 206,580.981	13,930,586
Fidelity Magellan*	shares 124,251.937	18,493,129
Fidelity Natural Resources*	shares 164,073.543	3,461,659
Fidelity Overseas*	shares 16,866,933.620	7,350,495
Fidelity Retirement Money Market*	shares	16,866,934
Fidelity Technology*	23,142.638 shares	1,571,154
Fidelity Utilities Growth*	24,767.971 shares	1,372,393
Legg Mason Partners Aggressive Growth	77,472.150 shares	8,960,429

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Managers Fremont Institutional Micro-Cap	37,457.414 shares	534,517
	111,351.701	
Spartan US Equity Index*	shares	5,587,628
	285,562.340	
Templeton Developing Markets A	shares	8,075,703
KB Home Stock Fund:		
KB Home common stock*	368,071.00 shares	18,871,912
Fidelity Cash*		877,685
Participant loans*		4,108,161
Interest rates ranging from 4.0% to 10.5% with maturity dates through 2021		
		\$ 192,254,279

\*Party-in-interest to the Plan.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

KB Home  
401 (k) Savings Plan

Dated: June 22, 2007

By: /s/ DOMENICO CECERE  
Domenico Cecere  
Executive Vice President and Chief Financial  
Officer

**EXHIBIT INDEX**

Exhibit No.	Description	Sequentially Numbered	Page
23.1	Consent of Independent Registered Public Accounting Firm	12	10